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SOME PHASES OF CORPORATE REORGANIZATION

WILLIAM F. PARSONS, M.A.

Introduction

DURING the past few years the soundness of the financial structure of most of our industrial and public utility corporations has been put to a severe test. Probably it was too much to expect that the impressive organizations built up during a wave of optimism and easy credit were invulnerable and could weather the economic and political disturbances which were bound to beset them. Probably we were too sanguine in expecting that corporation executives, who were constantly proving to the world that nothing was impossible in the field of business and that enterprises could be conceived and brought into being on a scale and for purposes never before witnessed in the history of commerce, could be capable of successfully navigating their creations through an hitherto uncharted sea.

True, the progress made by management in the last decade in the fields of production, distribution, construction and science, merited the approbation of the investing public who, too, were confident of the permanence of existing units of production. Unfortunately, however, a series of confusing events commencing with the stock market crash in the fall of 1929, has revealed to a somewhat chagrined and disillusioned public unmistakable evidence of inherent financial weaknesses in many of the country's largest and most influential businesses.

A great number of companies, ideally situated insofar as raw materials and markets are concerned, favoured by efficient management, enjoying the benefits of an expanding basic industry, and reaping the fruits accruing from public goodwill, find themselves in the short span of a few years not only unable to pay a fair return to shareholders, but wholly incapable of meeting even the service charges on mortgage and debenture indebtedness. Assuming that such corporations may continue to have wise supervision and can still lay claim to public benevolence because of the quality of their products, it is not impossible to imagine that through shrinkage in output, both in dollar and quantity

values, net earnings, while sufficient to meet overhead and running expenses and to maintain a volume of working capital consistent with the restricted level of operations, would be entirely inadequate to support a debt structure imposed at a time when the volume of dollar and unit sales was at peak levels.

Although we may be admonished to become sympathetic and overlook their inability to make good "promises-to-pay," especially when there is no absence of willingness, nevertheless, investors who have relied on the integrity of those to whom they have entrusted their savings cannot fail to realize that a valid contract has been broken and that the investment they now hold may be nothing more than a scrap of paper. This criticism may be too severe, but it remains to be seen how and when many millions of dollars of private capital borrowed for so-called safe and worthy endeavors will ever be paid back with interest to the date of accounting.

The Nature of Reorganization

When a company is unable to pay its debts, either the affairs must be wound up and the proceeds distributed among the creditors, according to the priority of their claims, or the liabilities must be scaled down to a point where the enterprise is able to continue its operations unhampered by debts. This scaling down of obligations necessarily results in some sacrifices being required of the security holders. The writing down of debts and the consequent adjustment of claims between creditors is no minor task. With most failed corporations there exists a great variety of creditor relationships. Not only are there trade creditors to contend with but the banks may hold a lien on a considerable proportion, if not all, of the liquid assets, as security for their advances. Like as not, these loans to the embarrassed corporation were made to build up cash assets which were depleted by the divergence of too much money to the payment of fixed or contingent charges. Again, there may be debentures outstanding which are secured by no specific asset but are a general obligation of the corporation and rank junior to the mortgage holders. Finally, there are the bondholders themselves whose mortgage is secured by a lien on specific assets as well as on the floating capital of the company. These, in turn, may hold first, second, or even third claims to the assets securing their issue.

Mention has not yet been made of the equity interests, namely, the preferred and common shareholders. These do not represent fixed debts of the corporation, unless the instalments payable under a cumu-

lative dividend feature may be so regarded. Though this be true, it might be injudicious to ignore in any plan of reorganization what claims they have. No further comment on this point will be made at this time, but it is so important that further consideration will be given in subsequent pages.

When only minor changes are made in the capital structure of a company is it not usual to refer to it as being a reorganization. The term reorganization should only be employed when changes of a radical nature in the capital set-up have become necessary. It is brought about either because of insolvency or due to some glaring weakness in the financial structure. Paul D. Cravath's definition is probably the best definition of what is meant.

"The term 'reorganization,' applied to corporations may somewhat loosely be defined as the rearrangement of the financial structure of an incorporated enterprise, rendered necessary by insolvency or by the inability of the corporation to secure the necessary funds for operation because of obstacles resulting from its financial structure. Corporate reorganizations usually, though not always, follow, and are based upon the foreclosure of mortgages or the enforcement of the rights of creditors in some form."¹

There are usually present some real or threatened financial difficulties which may hinder or even render impossible the operations of the corporation.

A reorganization is effected with the object in view of continuing the business under arrangements more favorable to its success. If the creditors adjust their claims voluntarily without resorting to law to enforce their security, it is referred to as being a "readjustment." In other words, a trustee or receiver is not appointed and foreclosure proceedings are not instituted. In this discussion we are not concerned with "recapitalizations," which are merely changes in the capital structures of corporations for reasons other than to meet financial stress, such as the issuance of additional shares or the reduction of outstanding capital or the redemption of bonds by stock.

A reorganization, therefore, is ordinarily accompanied by a reduction in fixed and contingent charges, and not infrequently it is necessary to bring new capital into the business to meet the ordinary requirements

1. Some Legal Phases of Corporate Financing Reorganization and Regulation. The MacMillan Company, 1930. Page 153.

of operation. The pressure to adjust claims arises from the necessity of making some sacrifices in order to save even a portion of the capital which has been invested in or loaned to a corporation. Logically, it is much more desirable if this adjustment can be brought about by the voluntary co-operation of all the creditors. If it becomes necessary to place the affairs in the hands of the courts there ensues no inconsiderable amount of harmful publicity, with resultant loss of goodwill and credit standing.

Without doubt, the reorganization of embarrassed corporations is as arduous as it is complex. The circumstances of every case vary to a marked degree both in the nature and the extent of readjustment which is necessary. These factors are unlike because of the different characteristics of the businesses involved and since failure is a relative condition. Naturally, the extent to which sacrifice on the part of the creditors is necessary, is determined by the degree of embarrassment.

It is of interest to notice that in general the courts play a relatively less prominent part in the rehabilitation of industrial companies than they do when a railway or other public utility company is in default. This difference arises from the fact that the latter are engaged in what are known as 'public' enterprises supplying essential needs to a community or the nation at large, which by their nature are not always best supplied under a condition of unregulated competition. Added to this is the fact that such organizations are often governed by special statutes and are controlled, to some extent at least, by governmental bodies.

There is not the element of state or public interest in most industrial or commercial companies and consequently the security holders themselves are forced to play a relatively more important part in the procedure which follows a corporate default. They must carry the burden of making equitable adjustments of the responsibilities and sacrifices between the several classes of creditors. Moreover the courts prefer the interested parties to settle their own differences as long as the principles laid down in statute or common law are not transgressed. At the same time a creditor has the privilege of bringing his case to court if he feels that his interests have not received proper consideration.

Some Fundamental Principles Regarding Risks

Certain fundamental economic differences existing between creditors are ordinarily recognized by the courts and by the public when dealing with adjustments. No steps should be taken to alter the rights of the parties involved in a reorganization until these differences are clearly

understood. This is basic in any scheme of rehabilitation and should be regarded as constituting the first duty of the reorganization committee. If there are any doubts in the minds of this committee as to the nature of the relationships existing between certain classes of the creditors nothing should prevent steps being taken to secure advice and direction from some eminent legal authority. The courts might even be called in to settle a dispute.

It is infinitely wiser to have these categories clearly defined and understood before any alterations are made in existing rights, than to find that after expending no inconsiderable amount of time, effort and money in arriving at a plan of reorganization, some class of interest has obtained an injunction from the court to stay the proceedings on the grounds of inequity.

For the purpose of determining the nature of the position of each class of creditors, consideration must be given not only to the security for the debt but also to the risks involved when the company was solvent. The first principle which serves to guide the decisions of the committee of the security holders in determining the position of the various interests is that the income of the company when in operation should be distributed in proportion to the risk assumed. Thus, the return to bondholders is essentially pure interest with only so much of economic profit included to compensate for the slight risk involved. Their risk, speaking theoretically, is relatively less than that of the preferred shareholders since the interest charges on the bonds must be paid as long as the corporation is solvent and before any disbursements are made to the shareholders.

Again, in theory, the bank creditor assumes a greater risk than the first mortgagee, as the latter's claim comes first. Therefore, the interest charged by the banker should be larger than the rate called for by the bonds because his return has more of the element of economic profit. In practice, however, a situation frequently arises in which the banker may be considered to be in a more secure position than the bondholders, especially when the bond issue is excessive compared with the value of the secured assets and the commercial banker has been able to demand specific liquid assets as security for his advances which have a ready marketable value in excess of the loans. The banker could then sell the security that he holds and thus realize on his claim, leaving the company without funds with which to pay bond interest or to meet trade obligations and the bondholders are forced to postpone or even

waive interest payments or probably reduce their claim, since they only hold as security for the loans fixed assets made up of land, buildings, and equipment which have practically no sale value at the time of the default or can only be disposed of at a forced sale for a fraction of the bond issue.

Consequently, the bondholder is impressed with the marked difference between the value of the plant and equipment as a going concern, and those same assets without the necessary funds to continue the operations of the company. The security for mortgage bond issues primarily lacks that element of marketability which is often characteristic of the liquid assets held by the banker. Despite this fact, it must not be assumed that the banker is always in such a fortunate position but the frequency with which the bondholders find themselves with an unrealizable asset gives clear evidence that there is more economic profit in the return to bondholders than is generally realized.

As opposed to bondholders and bankers, the return to shareholders is primarily pure profit, but inasmuch as solvent corporations have a margin of assets over fixed and current obligations, a portion of this return should be regarded as interest on that excess. Distributions to shareholders in the form of cash or stock dividends, however, come only after obligations to the debt holders have been met in full.

There is another class which shares in the distribution of income and that is the administrative officials. They receive salaries, and sometimes bonuses, for their services in managing the enterprise. As they should receive a remuneration in keeping with their worth to the company—namely, their ability to make profits—the return to them is regarded as pure economic profit. They have no personal investment in the business and consequently they cannot receive interest. Their salaries constitute payment for entrepreneur ability.

To briefly sum up these interests, then, the risks are shared in the following order:

1. Manager.
2. Common shareholders.
3. Preference shareholders.
4. Unsecured creditors (trade creditors).
5. Secured creditors (bankers).
6. Debenture holders.
7. First mortgage bondholders.

Economic profit should be distributed in this order. Conversely,

the proportion of the return, that is made up of interest, is largest with the bondholders and diminishes with each of the other classes until the management group is reached. This class receives not interest but entirely economic profit.

When the alignment of these classes is receiving the consideration of the reorganization committee it is not enough that weight be given to the nature of the security held by each, but their decision must be influenced by these fundamental economic differences. To carry these considerations to a logical conclusion it must be recognized that when a company is in such financial straits that a reorganization is imperative if the business is to be continued we are primarily concerned, not with the various ratios for the sharing of profit, but with the distribution of interest. In other words, an interest obligation has been actually defaulted or default is contemplated. Income does not exist or is not earned in sufficient quantity to satisfy interest claims. Therefore, preferential treatment must be given to those who have interest claims with less consideration being given to those who have an inherent right to the profits of the corporation, after all expenses and interest charges have been met. This statement is not opposed to the economic theory of the problem just enunciated, inasmuch as profits are justifiable only as compensation for risk and skill in management and when a company is unable to meet the charges ranking prior to the claims for profit, the very failure attests to an unwise assumption of risk or to the absence of ability to make a profit.

The management is primarily responsible for making gains or incurring losses and if losses are serious new managers may be appointed to take the place of the old. The shareholders are the next to be affected by the losses. They are the owners of the business and as such have an inherent title to all the profits. They must likewise share the losses. If large profits are made the shareholders would reap the greatest returns and in a similar manner they must bear the brunt of the losses when these are incurred. Shares with preferences as to assets and dividends should not be required to make the sacrifices imposed on the common shareholders in view of the fact that a larger proportion of the latter's return is made up of pure interest. The former cannot share in the profits and they have nothing to say in the management of the business.

The holders of the current debt come next in sharing the sacrifices, the unsecured creditors assuming a relatively greater proportion than

the secured creditors. Bond and debenture holders are the last who should be expected to share in the burden as they are least of all sharers in the risk and responsibility of the enterprise.

Briefly, this is the order which should be followed when sacrifices are necessary, the major requirement being that the burden be distributed in proportion to the element of economic profit in the income return. Recognition of this principle will do much to avoid complications and possibly law suits when the committee attempts to make effective a scheme of reorganization which they have produced.

Reorganization Procedure

Without dealing too ponderously with the technique of reorganization procedure it may be stated that when a reorganization is effected by the foreclosure of a mortgage or by the enforcement of the rights of other creditors in which a new company is organized to acquire the assets of the defaulting corporation the first step is the appointment of a receiver by the court for the purpose of supervising the operations of the company pending foreclosure proceedings and ultimate reorganization. As a second step it is customary to place a solicitor in charge of the foreclosure proceedings as certain statutory requirements must be complied with. This action presupposes the sale of all the property, which is pledged as security under the trust deed to a purchaser who may or may not continue the business and undertakings of the company.

While the receivership papers are being prepared a bondholders' protective committee should be organized by or under the direction of the creditors. This committee should immediately arrange for the drawing of the bondholders' protective agreement, or, as it is sometimes called, a deposit agreement. As this is a most important document, the task should be entrusted only to an experienced lawyer. It covers the appointment of the committee, defines its powers and provides for the deposit of bonds thereunder. This grant of power to the committee should place its members in practically the position of the owners of the bonds, so they may be able to deal adequately with any unforeseen contingency that may arise. It is usual to appoint a trust company as the depository under the agreement and all depositing bondholders become bound by its provisions. As there are often several committees appointed, each representing a different class of creditor, to work on the reorganization, the final plan is frequently the result of negotiations between them.

Rarely is a bondholders' protective committee given power to adopt a plan of reorganization prepared by itself, or by someone else, without first submitting it to the bondholders to give them an opportunity to reject it by withdrawing their bonds or to give their approval by leaving their bonds on deposit.

If the plan and agreement of reorganization meets with the approval of the security holders and sufficient securities have been deposited, as provided for in the agreement, the next major step is the consummation of the new scheme by arranging for the incorporation of the new company, the sale of the assets of the old corporation, and the distribution of the new securities.

One of the important problems that a security holder facing a reorganization will have to settle is whether he should deposit his security before a plan is announced or if he should wait until a committee brings out a plan so he may decide if he wishes to endorse it. If a meeting of security holders is called for the purpose of electing a protective committee requiring the deposit of bonds, it must be understood that such a committee has no legal status or power. Nevertheless, it can prepare a reorganization plan and submit it to a meeting of the security holders at a later date for their approval. In order to insure success, under this method, it is essential that the committee secure the active co-operation of all classes of creditors as well as the owners and be provided with sufficient funds to cover its expenses.

A few reorganizations have recently been completed in Canada or are being proceeded with under this method, such as—Canada Power and Paper Corporation, Fraser Companies, Donnacona Paper Company, Canada Biscuit Company and the Beauharnois Power Corporation. When this scheme is adopted, the plan as finally drawn up by the committee must be approved at a subsequent meeting of security holders called for that purpose.

Several very obvious advantages accrue when this method is used. The expenses of reorganization are considerably reduced. Furthermore, the security holders have an opportunity to study the plan of reorganization before depositing their securities. It also gives them time to familiarize themselves with the members of the committee in whose appointment they may not have had any voice. The main disadvantage of this method is that several rival committees may be formed at the same time. If this takes place, no one of the committees may find itself with sufficient authority to form a plan.

If the management is antagonistic to the proceedings it will then become necessary to form a protective committee under the deposit agreement arrangement. This document is executed between the members of the committee, the depositing security holders, and the depository. As the personnel is an important factor in insuring the success of subsequent developments, every effort should be made to obtain members who enjoy the confidence of the investing public. To encourage the depositing of securities, care should be taken to see that the committee is not dominated by a majority of representatives of the underwriting house.

The appointment of a committee under the deposit agreement method has its distinct advantages. For example, the possibility of an embarrassing situation developing because of the action of a minority is substantially lessened as soon as a majority of the securities is deposited under the agreement. Such a committee also is able to operate the property pending a more advantageous time to reorganize without fear of losing its authority. This form of procedure is frequently expensive, however, because of heavy legal and depository fees, advertising costs, etc. Also adverse criticism sometimes arises because of the wide powers it is necessary to grant such a committee.

The question as to which method should be adopted depends entirely upon the circumstances of the case. If a committee can secure the confidence of both the creditors and equity interests, there appears to be no reason why securities should not be deposited before a plan is drawn up. If such a committee fails to obtain the confidence of the majority of the parties, either because the members lack experience or because the committee is dominated by interests opposed to that of the security holders, it would undoubtedly be unwise to give it such wide powers.

Causes of Reorganization

The circumstances leading to reorganization are so numerous and complex that it is most difficult to cover all but a few of the most common. Corporate failures may be due to incompetent management, inadequate capital, lack of experience among the executive officials, unsound credit policies, disastrous competition, speculation and unwise ventures, etc.

Many corporations fail because they are burdened with fixed and contingent charges which they are unable to meet when income suffers a severe retraction. Irregular earnings of a company, burdened with

substantial liabilities of a fixed character, are fatal to its solvency, particularly if it has made such liberal disbursements to shareholders as to neglect building up adequate funds to carry it through a period of prolonged business recession.

Most of the financial difficulties of corporations are due to unsound fiscal policies of the directors and executives. Too often anticipated earnings, as estimated by promoters, do not materialize. In addition, there are not infrequent instances where the earnings of a corporation, after acquiring other companies, have been on a much smaller scale than the profits of the individual units before amalgamation.

In many cases, dividends are paid on stock even from the commencement of business in spite of the fact that such disbursements can not be justified on the basis of true earnings. This policy invariably brings about its logical consequences. Funds should be conserved to build up adequate reserves and a strong working capital position. It is unfortunate that boards of directors have been known to declare dividends without acquainting themselves sufficiently with the true position of their companies for the sole purpose of satisfying the expectations of the public and the shareholders. At times this is done to make a market for the company's stock so that the directors, promoters, or underwriters can sell their holdings at a profit as soon as possible.

The overburdening of corporations with liabilities has been a common practice in most industries. The tendency toward overcapitalization has been due in part to the greed of promoters and underwriters for excessive underwriting profits. This condition has been encouraged inasmuch as the public's money is commonly used to pay for the construction or acquisition of properties and rights. When business is substantially above normal levels, it is relatively easy for these heavily capitalized corporations to meet their obligations but when earnings are deflated not only is the whole of net earnings, but also the working capital of an enterprise used to meet fixed charges. Consequently, abnormal earnings should not be used to measure the soundness of a capital structure. As a matter of fact, the capitalization of a company should be such as to enable it to meet all its obligations, both during a period of normal earnings and when revenue is below average.

The confession of failure is usually postponed as long as circumstances in any way permit. Default in interest is avoided by the deflection of working capital to meet these charges or by additional borrowing. This procedure is followed because it is realized that such an

omission would seriously affect the credit position of the corporation as well as the market price of its securities. Thus, floating debt is increased in order to ward off an impending crisis. This policy merely postpones the disaster and if the current debt is increased out of proportion to the decrease in trade or the carrying power of the business, failure is inevitable.

It is often explained that failure is due to inadequate working capital or the tightening of credit requirements by the banks. Such statements can only be regarded as alibis rather than truthful admissions. When such excuses are given, it is usually found that working capital and bank credit has been used in the past to meet interest payments, thus depleting the very funds which are essential to the maintenance of operations.

Unfortunately, a number of companies make the inevitable mistake of continuing to pay dividends on preferred and common shares after their financial position has become jeopardized. The practice of paying dividends which are not earned by companies with heavy funded debts is fatal to their solvency if continued for any lengthy period. Whereas the payment of interest can be justified on the grounds of expediency even if revenues are falling and the floating debt is increasing, dividend disbursements cannot be so regarded. Too frequently unearned interest or dividends are paid in the year just prior to the event of default. These policies have little to commend themselves and are evidence that the company is courting ruin.

In addition to these defective financial policies, certain administrative weaknesses may be contributing factors in bringing about the insolvency. Diffusion of responsibility, lack of knowledge of the ability of employees, disloyalty, lack of attention to details, and disregard of customers' interests are some of the managerial causes of failure.

Economic factors of a general nature may also bring about failure. An industry may be so overdeveloped that markets are unable to absorb even a reasonable amount of the products on the basis of existing capacity. A company may be at a disadvantage because of poor location from the source of raw materials or from its markets. Relatively high costs of production and distribution may render it impossible to meet competition. Furthermore, the point of maximum economy in production may already have been reached and therefore a further invest-

ment in land, labor or equipment, might result in a lower return on the capital employed in the business.

When considering the causes of reorganization, it is interesting to recall that there are several types of failure. In the case of a business failure, a company is unable to earn enough money to meet some of the costs of production such as raw materials and wages, let alone interests or profits. Such a business is kept running as long as the owners are in a position to meet the deficiency. If a company is able to cover the costs of production but cannot meet any form of interest-bearing obligations, such as floating or funded debts, it is classed as a 'financial' failure. A 'legal' failure results when the court intervenes or a receiver is appointed and the company is declared to be insolvent. An 'economic' failure is primarily a question of theoretical determination. From an economic point of view, in order to be a success an organization must pay normal wages, a normal rate of interest, and a normal rate of profit. Normalcy in wages, interest or profits may be determined by comparison with other companies engaged in the same industry, or by taking into consideration the general tendencies of costs during the particular period involved. It differs from a business failure in that the latter cannot meet production costs. Profits are necessary in the case of a successful corporation to compensate for the risks involved and to pay for special administrative ability.

In order to ascertain the real causes of failure, analysis should proceed further than the external or superficial considerations. In most cases, it will be found that there are fundamental causes which can be determined only if a thorough search is made into past administrative and financial policies.

Conclusion

If financial or legal failure is to be avoided, there must be economically sound arguments for a company's being and the capital structure and administration of incoming funds must be based on conservative principles. It is surprising to find so many companies hopelessly saddled with liabilities even before earning capacity has been fully demonstrated. In view of the number of companies which have been forced to default in interest payments during the present depression, it seems, beyond a doubt, that industrial companies are ordinarily overburdened with funded obligations and other capital liabilities calling for fixed and contingent interest and dividend payments on a scale higher than they can reasonably be expected to earn at all times. The excuse is often ad-

vanced that without offering such securities for sale, it would have been impossible to finance the company and, therefore, industrial and commercial progress would have been seriously retarded. Nevertheless, if financing had not been so easy it is quite likely that there would have been less overdevelopment and overexploitation of industry and the solution to many of the most urgent problems facing business to-day would have been easier of accomplishment. Granting that interest and cumulative dividend bearing issues fill a need in modern corporation finance, there is now abundant proof to show that the prominence given to such securities in most capital structures is largely unwarranted and it has spelled disaster for some of the most promising enterprises.

The size of a capital structure is not so important as the nature of the security of which it is constituted. The classes of issues should be in keeping with earning power and provision should be made to allow for the building up of adequate reserves for contingencies. It is unnecessary to point out the necessity of keeping interest and dividend requirements substantially within the income available during quiet years. Notwithstanding the advantages of borrowing capital the construction or acquisition of the fixed assets of public utility organizations whose earnings have been established or definitely assured, the common practice of issuing large amounts of bonds and debentures on assets of industrial enterprises seems to be opposed to sound fiscal policy. Due to cyclical changes in business, if for no other reason, the earnings of industrial companies fluctuate so widely that no one can prophesy with any degree of certainty that fixed and contingent charges will always be earned. When it becomes necessary for a corporation to default on interest or principal payments, it adds to the confusion and discouragement of the investing public. In recent years, so many companies have been forced to go into default there is little wonder that a considerable amount of faith has been lost in industrial securities. Consequently, promoters must not only use greater care in estimating earnings on which to base a capital structure, but subsequent underwritings must not place such severe handicaps on units that can meet their obligations only when earnings are normal or better.

For such reasons as these, the trend in the capitalization of industrial companies, without any doubt, must be away from debt and toward equities. Not until this is realized will industrial financing regain a respectable position in the security market to which it is entitled. A conservative capital structure is not enough, however, to guarantee

future success. The distribution of current income has an equally important bearing on the financial security of an organization. Maintenance policies should be liberal and depreciation reserves should be set up on a generous scale. Ample funds must also be provided to take care of unforeseen contingencies. A wise corporation will make provision to retire its debt as soon as possible, consistent with its earning power. Finally, dividend disbursements must allow for the reinvestment in the business of a substantial proportion of the net earnings.

Assuming that a company has a conservative capitalization and its income is administered in keeping with sound financial practices, the management should install an accounting system that meets all the requirements of modern approved methods and should insist upon sound auditing procedure so that the true position of the corporation is known at all times. Industrial accountants should spare no effort to bring about more uniformity and standardization in their practices. This applies not only to valuations and allowances, but also to terminology and statement presentation. There is a great need for more complete details and explanations in the public accounts. If there is a public interest in subsidiary companies, complete statements, showing the position of each unit, should be made available.

In view of the numerous defects in corporate financial practices brought to light since the market crash in 1929, there is a strong feeling in many quarters that new or refunding industrial security offerings will not be possible, on any large scale, for some years to come. When such activity is resumed, it is hoped that the fiscal policies of industrial corporations will have undergone many radical changes for the better.

It is not necessary to ponder further on the mistakes of the past. The fact should be stressed, however, that aside from circumstances over which the executives cannot be expected to have control, financial difficulties of most industrial corporations are the result of an unfortunate, but nevertheless intentional, choice of securities by the promoters or subsequent directors for the purpose of raising money. Unsound financial policies during the life-time of an organization will surely contribute to the impairment of an otherwise healthy state. Companies should not be burdened with heavy charges if the nature of their business is entirely unsuited to the making of such contracts. If earnings are dissipated by excessive interest and dividend payments, not only is the current position sacrificed but frequently inadequate provision is made for contingencies and the inevitable depreciation and obsolescence

of assets. In all probability, an enterprise will be found to be not sound enough to make a first-class mortgage risk if it is impossible to raise funds without heavily mortgaging the assets and earnings.

There is no better test of the soundness of a capital structure than a prolonged economic depression. It is unfortunate, to say the least, that many of the country's most powerful corporations have been unable to withstand the effects of the past four years. To overcome the uncertainty and disillusionment that has now been engendered, promoters, administrative officials, directors and security underwriters will have to give abundant proof of their wisdom and integrity. This happy state of affairs can never be obtained as long as the savings of others are used to pay inordinate salaries and dividends and exorbitant profit to promoters and underwriters.

BUSINESS INSURANCE

ALLON PEEBLES, PH. D.

AS the institution of life insurance has developed, it has been adapted to serve special purposes. The uses of life insurance to provide educational funds for children and to cover succession duties afford illustrations of this adaptation. Likewise, in the field of business insurance, life companies are rendering a distinct service by covering certain risks which may result in considerable financial loss. There is nothing mysterious about business insurance, it is simply the application of standard life contracts to certain contingencies in the world of finance and industry.

In general, business insurance covers part or all of the loss to a firm resulting from the death of a business man. More specifically this loss arises in two ways:

1. a man, who may or may not be financially interested in the concern, is so valuable on account of his knowledge, skill, and reputation, that his death results in financial reverses. He may be a general manager, a sales-manager, a chemist, etc. The essential point is that his knowledge contributes vitally to the success of the business and that he cannot readily be replaced.

2. the death of an owner (full or part), who may or may not be actively engaged in the conduct of the business, may cause financial embarrassment to the enterprise. In this case the loss arises from the necessity of disposing of decedent's property rights in the business. The conservation of ownership and the rights and profits going with it constitute the problem.

Although for clarity of analysis this distinction between the insurance of personal skill and of ownership is made, it is recognized that in many instances, both skill and ownership are centred in the same individuals. In such circumstances insurance upon the one life accomplishes both objectives.

Insurance to cover the first type of loss may be discussed briefly. Any business, small or large, which is mainly dependent for its success

upon the skill of one or more men stands to lose money if these men die. Some concerns are "one-man" organizations and in them the problem is particularly acute. If, for example, the manager of a company has kept all the reins in his own hands, on his death the company will experience financial losses if a suitable understudy has not been coached to take over the manager's duties. These losses cannot be avoided, but they can be covered by a life insurance contract made payable to the business firm upon the death of the manager. Of course the question arises: "How much loss will the death of a particular man cause a firm?" As yet no one has devised a convenient measuring rod to answer this question. The only answer that can be given is that the sum assured be reasonably adequate in the opinion of the management and that the premiums be within the ability of the business to pay. Obviously all executives or specially skilled employees of a company cannot always be covered by business insurance, for the total cost would impair the working capital of the corporation, or at least divert funds that might better be employed in the conduct of the business.

The second purpose of business insurance—to protect property from loss upon the death of the owner or part owner of a business—raises more complicated problems. For the purposes of this paper, only three types of business organization will be considered, the sole proprietorship, the partnership and the corporation. Regardless of the type of organization, it is fundamental to the purposes of business insurance that documents be drawn up specifying exactly what is to be done with the proceeds of the policies by the business beneficiaries. With partnerships and corporations, the agreement must be entered into by the members of the firm. With a sole proprietorship, the proceeds of all the deceased's insurance, both personal and business, may be disposed of by will. The beneficiaries mentioned in a business policy are rarely the final recipients of the money. Ultimately the decedent's relatives receive the funds. But the manner in which the funds are paid to the assured's family may have been previously determined by him. Under a trust agreement, for example, he may arrange that the proceeds of his business insurance, received by the trust company from the co-owners of the business, be paid to his wife at so much per month for the balance of her life.

Business insurance for the protection of property has varying degrees of usefulness, according to the type of business enterprise concerned. The sole proprietor's business insurance and personal insurance program are almost identical. In this case, the main objective is

that his total coverage be adequate. In the field of partnerships, business insurance is useful and necessary, almost without exception. With corporations, the usefulness of life insurance to conserve property values depends upon the number of stockholders and the extent of their holdings. If control is vested in only three or four hands, constituting a *close* corporation, business insurance has a role to play. But business insurance, apart from that on a valuable life, has no significance for the corporation which is controlled by say twenty or thirty individuals or more. The partnership and the *close* corporation constitute the pre-eminent field for business insurance.

Upon the death of the sole proprietor of a business the enterprise must be sold or taken over by survivors of the deceased. In either case heavy losses are probable. The proprietor, recognizing this contingency, can cover it by life insurance. By making his son the beneficiary, for example, the proprietor may enable the business to continue. If bank credit is reduced or withdrawn at such a time, or if customers fall off, the insurance funds will provide the necessary "shock absorber" until the business is readjusted. Obviously the sole proprietor must make specific provision in his will for the expenditure of the proceeds of the business insurance policy.

On account of the legal nature of the partnership, it is the field *par excellence* for business insurance. When one member of a partnership dies, the partnership is generally dissolved. With two partners A and B, for example, if A dies, B must liquidate the business and pay off the interest of A, all debts must be settled and any surplus resulting must be divided between A's estate and B. If A is not insured in favor of B, what happens? The survivor scurries around to see if he can raise sufficient money to cover the decedent's interest. Perhaps he raises \$20,000, an amount which he considers adequate for the purpose, only to be told by A's widow that she will not consider a cent less than \$25,000. He simply cannot obtain the extra \$5,000. Forced liquidation results. Both his interests and those of his dead partner suffer severe losses.

How different is the situation if the partners are each insured in favor of the other, according to the interest of each in the firm. An agreement has been entered into by both, specifying clearly the rights and powers of the survivor. Now B has sufficient funds to buy out A, disputes with A's heirs are eliminated by the agreement, and B can continue with the business.

The *close* corporation presents somewhat similar problems to those

of the partnership, except that on the death of a part-owner of the corporation the business does not have to be liquidated. For example, three men, X, Y and Z combine their capital and skill to form a corporation, X having control of 50 per cent. of the shares, Y, 30 per cent. and Z, 20 per cent. The death of any one of the three, whether majority or minority stockholder, may cause considerable embarrassment to the survivors, particularly as there is no ready market for the sale of the stock. However, if sufficient life insurance has been carried to purchase the stock of the deceased, his interest can be liquidated and the two surviving members of the firm can "carry on" without outside interference.

The mechanism of the transaction requires a clearly-worded agreement signed by the members of the firm. Among other items this agreement should require that no member be permitted to dispose of his stock during his lifetime, that the stock certificates be deposited with a trust company, and that the trust company be given complete power and instructions to carry out the agreement in the event of the death of any member of the corporation. The trust company acts as beneficiary.

In order to complete this general presentation of business insurance, some other matters should be mentioned. What plan of contract is best? Although any standard plan of insurance may be used, in most instances the ordinary or whole life policy is the best. How shall the required amount of insurance be determined? This question is complicated and the answer can only be sketched here. Whether a partnership or corporation is being considered, the value of the business may be determined by inventory, by the capitalized value of the earnings over say the five years previous to the taking out of insurance, or by a combination of both. Once the value of the business is ascertained, the amount of insurance on each life should be proportionate to the assured's interest in the business. Of course it is clear that the amount of protection carried should change from year to year in accordance with the fortunes of the firm. Finally, no matter how desirable, any company cannot carry insurance in excess of its ability to pay.

In summary, business insurance will accomplish one or more of the following objects:

1. It replaces the economic loss of a valuable life.
2. It retires the decedent's interest and allows the survivor to continue the business.
3. It stabilizes the credit of a firm.

THE IMPORTANCE OF ACCOUNTING TO EXECUTIVES

PHILIP H. HENSEL, M. B. A.

WHILE we can look back to the ancients for the beginnings of accounting, it was not until recent times that modern accounting as we know it was devised. Until the advent of the machinery age, transactions of buying and selling and exchange of money were adequately served by the simplest of systems. When big factories with mechanical appliances, employing numerous men, began displacing hand-work, the industrial era started, and accounting became complex. The rapid multiplication of such industries increased the problems and it soon became apparent that manufacturing and industrial accounting were the most difficult tasks that had yet faced the accounting fraternity. The subject was most baffling. The old merchandise account was continued, to which goods made or purchased were charged at cost, and sales were credited at selling prices. Costs of products were estimated by crude methods and inventories were priced at these costs. Inventory periods were dreaded because of the difficulties of pricing, closing down and making up balance-sheets and trading accounts. Balance-sheets and profit-and-loss statements in the comprehensive and intelligent form of the present day were unknown. Audited and certified statements such as now are commonly required were likewise unknown; and it is safe to say, perhaps, that statements really correct were seldom obtained. Manufacturers naturally sought men skilled in accounting practice to help them out and while such men knew more than the bookkeepers employed by the manufacturers, they had only a scant knowledge of modern accounting as we know it today.

As the first great modern industrial country, it was natural that England should earliest appreciate the importance of accounting and dignify men engaged in it publicly by state recognition. England has the distinction of first creating by law, about two generations ago, the chartered accountant, and of establishing accounting on a high professional plane approaching that of law. In Canada professional accountants were first recognized through the incorporation of the Dominion Association of Chartered Accountants in 1902. Later, independent societies were incorporated in the various provinces.

The comptroller or general auditor of a corporation should be an expert accountant. He should know the theory and practice of general accounting as well as the professional accountant and infinitely more about the problems of his own concern. He is the diagnostician of the business. He knows what is going on. He is resourceful, courageous, aggressive and determined to get the facts and disclose them to the executive. However, he must be tactful in order to keep the friendship and get the co-operation of the organization. No man is stronger than the organization, and tactful men realize this.

The treasurer of a large corporation should be an expert accountant. He should be a man unafraid, when danger threatens, to say "no" to his president or his directors when occasion demands and to show him or them why. He should be prepared to accept dismissal rather than to permit grave risks to be taken. If the treasurers of our corporations during 1929 and 1930 had been men of this type, most of the inflation and huge losses of business would have been avoided. We all know of several presidents who ran their corporations into debt during this period without realizing the significance of their actions at the time. This fact is one of the best evidences of the importance of accounting to management.

The responsibility for the character of the accounting system of every corporation rests on the comptroller in co-operation with the treasurer. Therein lies the secret of success. Some systems are almost choked to death with red tape. They anger the production and sales departments, puzzle the accounting forces and cost a considerable amount of money without giving the desired information to the management. Capable comptrollers will not permit such systems to endure. To be of real value, accounting systems must be comprehensive, simple and economical. They must not clutter up the factory with time tickets, material tickets and other minutiae. Departmental records must be kept only as the basis for operating reports that are actually required by the management. When the cost of keeping records and making reports exceeds the loss that might be sustained without them, they become inadvisable.

The large company is generally equipped with efficient accounting systems which comprise, in brief: (1) original records kept in different departments showing receipt and disbursement of money; purchases, stocks and use of materials and supplies for production, construction and equipment; the movement of finished goods; and collection and

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payment of accounts; (2) operating reports made from these records for the information of the management; and (3) financial reports for the information of management, directors and stockholders. These reports, made daily, weekly and monthly, show what has happened in the business. Unless the management thoroughly understands them, however, and uses them to correct wrong conditions and take further advantage of opportunities which they disclose, their value is diminished. The management should possess at least good working knowledge of accounting. The possession of even brilliant talent for manufacturing or selling, or both, is not enough. There are many details of business which management must watch vigilantly. Plant equipment and methods of manufacture may be economical and proper or otherwise. The number of employees, salary and wage-rolls, kinds and cost of materials, costs and prices of product, markets and sales efforts, financial condition and profits are always live questions. Reports from the accounting department disclose the facts concerning them all. Every member of the management from the foreman up to the president should be an analyzer of reports and a seeker after improvements. These things illustrate the importance of accounting to management. They show why it is impossible to conduct a business intelligently and successfully without an adequate accounting system. While such systems generally prevail in large corporations, many smaller concerns are woefully lacking in accounting facilities. Such concerns will bond their cashier to prevent him from stealing the cash in the bank or the cash drawer, and maintain no checks whatever on their inventories or receivables, which usually represent three-fourths or more of their total assets. On the theory that a dollar saved is a dollar made, they spend money reluctantly. They think only of accounts and never in percentages. When sales can be increased by an increase in the amount of expenses without increasing the expense ratio, they seldom grasp the opportunity. When new machinery or new methods will justify the scrapping of old equipment, they may never comprehend it. Modern accounting methods are adaptable to such concerns, whether they be engaged in manufacturing, jobbing or retailing, and will pay their cost if operating reports are properly utilized by the management. It is the writer's conviction that efficient accounting systems applied to business generally and used intelligently by management would soon save thousands of dollars annually.

The test of industrial accounting as applied in any manufacturing

plant is its utility as an aid to management. A system of industrial accounting, to be of practical worth, must serve as a dependable guide to the executives in the administration of manufacturing operations. It will be found that the best organized concerns have developed forms of current reports that reveal to the executives variations between actual and standard performance which in turn point the way to economies and increased output.

Production upon a large scale cannot be undertaken successfully without dependence upon industrial accounting. This has been demonstrated by the experience of the larger corporations. The successful ones have spared no effort or expense to organize their industrial accounting methods so that the results could be put into practical use from an administrative standpoint. It would not be possible otherwise for the managing heads of the largest corporations to gauge the relative efficiency of numerous and widely scattered manufacturing units.

The writer is not referring to the general accounts of a corporation which are reflected in the profit-and-loss statement. Such accounts are of great value, of course, for they show the profits which have been earned over a period as the result of the combined activities of financing, purchasing, manufacturing, and selling. Such statements should be available for the executives, directors and stockholders. This, however, is not the function of industrial accounting. The task of the manager in charge of manufacturing is, in a word, to produce goods in sufficient quantity and at low cost. He is constantly aiming to effect reductions in cost. It may be said almost, that he has to shape the profit-and-loss statement before the record thereof can be written on the books. He knows in advance of production, as a rule, what the selling prices are and his problem is so to organize production that the goods can be turned out at a cost commensurate with the known selling prices. In directing production on a large scale, he needs reports which will disclose whether the output of the factory is measuring up to the standard which he has planned, whether labor costs for the factory as a whole are being kept within the bounds which will allow a fair profit, whether materials are being utilized without excessive waste and whether the overhead expenses of the producing and non-producing departments are being confined within the predetermined limits of a budget. These objects are accomplished through industrial accounting.

It is evident that the planning of an adequate scheme of industrial accounting as adapted to a particular plant is primarily a problem of

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organization and management. It should be attempted only by one who is familiar with the operating requirements of the business and who understands the necessities of organization in large industries. The factors of cost and output which have the greatest influence on ultimate profits must be discerned and practical means must be found for translating them into charts or reports. A suitable type of system and construction of its details cannot be determined without an understanding of the general operating policies of the business.

The requisites of an effective system of industrial accounting may be summed up as follows:

First: It should furnish comprehensive information, which covers the entire field of manufacturing operations of the business and includes all the factors which the manager in charge of manufacturing should watch and control.

Second: It should furnish information in condensed form, for executives have little time for consideration of details and hence must focus their attention upon significant figures which exhibit results in perspective.

Third: It should supply information promptly, for otherwise opportunity for correction of inefficiencies in operation may be lost or postponed too long.

The ordinary profit-and-loss statement does not fulfill these requirements. It is not expressed in terms which alone would enable a factory manager to discover inefficiencies. The task of the manager in charge of manufacturing, as has been stated, is to keep the items of manufacturing cost within limits which will result in a profit. He must control operations and introduce economies and corrective measures with a mind to their effect upon the profits on orders yet to be processed. A profit-and-loss statement is merely a proof of what his efforts have accomplished with respect to orders already completed. It does not disclose the facts which would permit him to minimize the costs of future operations.

Industrial accounting in its broadest sense denotes a subject of wider scope than is ordinarily conveyed by the term "unit cost accounting." Unit cost accounting is an important division of industrial accounting. Unit costs must nevertheless be resolved into composite figures to be useful in management from the executives' viewpoint. An executive cannot, for lack of time, inspect the unit costs of a variety of products, though he should by all means insist that unit costs be com-

piled and reviewed by his factory accounting department. He must confine his attention necessarily to the main factors which, if properly controlled, make for low cost in the production of all articles in the plant. The production in large volume controls and reduces labor costs and expenses in the aggregate, and insures economical use of materials and supplies.

The relation of unit costs to selling prices is frequently misunderstood. A business man must rely to a great extent upon his judgment and sagacity in reaching a decision as to what prices to quote or accept. With him it is more a question of trading and forecasting the future than deducing from records of past costs. From a manufacturing standpoint, however, the relation of unit costs to selling prices has an important bearing in management.

Selling prices as fixed or accepted by the manufacturer are based on assumed costs of labor, material and expense. His judgment is that margin between the selling prices and assumed costs is wide enough to allow him a profit. Otherwise he would not accept the orders. The profits which are actually realized after production has been completed and sales have been consummated depend largely upon the success of the manufacturer in keeping his costs within the bounds set in fixing or accepting selling prices in advance of production.

Knowledge of unit costs of products completed in a prior period aids the manufacturer in determining what prices he can afford to accept on future production; that, in fact, is one of the functions of unit cost accounting. Industrial accounting, however, is not restricted to the determination of unit costs. An important and imperative object of industrial accounting is to inform the executive whether the current operations of the plant are being conducted so that the assumed profit which was anticipated when the orders were accepted, will actually be realized after production is completed. In other words the executive must know whether actual labor, material, and overhead costs of the plant as a whole compare favorably with the assumed costs; and whether the volume of production (which determines the amount of overhead expense that shall be borne by the various products) is being maintained at the scheduled rate. It is one thing to negotiate a price; it is another to decide whether to accept or refuse a price which will yield a certain profit from an assumed cost. That is a function of salesmanship. It is quite a different matter to direct the manifold operations of production so that the costs of the completed articles will not exceed

the assumed costs. This is a function of factory management aided by industrial accounting.

When the purpose of industrial accounting is considered in this light, it will be seen that the installation of improved methods should proceed from the apex, rather than the base, of the factory organization. Of foremost importance is the selection of the major factors which offer the greatest opportunity for regulation and consequent savings with a minimum of administrative machinery. The fundamental factor in certain industries is the common unit of production.

Every plant should, if feasible, have a unit of measurement by which all costs and quantities can be converted into comparable figures. Without such a common denominator, costs of the plant as a whole cannot be related to output. Gross costs may be increasing 10 per cent. per month, but this observation in itself has no special significance. At what rate is output increasing? Is the cost per unit more or less than in the preceding period? Unit cost records would answer these questions with respect to individual articles or pieces, but the manager seeks information relative to the performance of the factory as a whole.

In the rubber tire industry, for example, the number of tires produced is not the common unit, as might be supposed at first thought. There are too many sizes and types of tires to permit of reliable deductions being drawn from statistics based on the total number. The proportion produced of each size, moreover, varies from week to week so that the "average" size is not constant. The common unit has to be derived by taking a given size of a particular type of tire as the basis, and converting the number produced of all other sizes and types into an equivalent number of "base" tires. The conversion is done by means of differentials which are calculated from the standard labor hours required to complete each tire.

Textile mills determine their common units in a similar way. The number of square yards woven of each fabric is translated by means of a differential into the yards of the "base" fabric. Yarns are converted also, but the unit for yarns must always be handled separately from the unit for fabrics, which means that a mill which has both spinning frames and looms must treat the two departments as entirely distinct divisions.

In the automobile industry the "balance" in production is quite as important from an operating standpoint as the quantity of output, for the output of completed engines or cars is limited to the number of

entire sets of component parts manufactured. If the production of a single component part is not timed properly, the assembling of the cars will be delayed. It is a constant problem before automobile manufacturers, therefore, to regulate the production of each part so that deliveries of cars will not have to wait for missing parts. In the most highly organized factories continuous production proceeds on each operation in accordance with a prearranged and balanced schedule. Such plants measure output in total number of cars assembled, and reports of parts "out of balance" are given immediate attention.

The importance of efficiency in business organization has never been so generally recognized as at the present time, and there is promise of even greater development in the future.

The ultimate causes of this are to be found in the broad field of economics. The gradual absorption and development of natural resources, the exploitation of new fields of commerce, the increase of population, the higher standards of living, the greater complexities of demands of modern life—these are but a few of the innumerable influences reflected in the industrial life of today.

Only one practicable road lies before the executive today and that is a keener realization of the existing possibilities of his business. The introduction of correct accounting and cost methods, backed by a sound organization, will enable the executive to be prepared to meet his problems.

BRAND POLICY

WALTER A. THOMPSON, M.B.A.

NEWSPAPER advertising lineage has been, like most lines of business activity, going downward. In a discussion of the possibility of a return of advertising activity, one of the primary essentials has been quite neglected. The basis upon which advertising has always rested is its ability to cause the buyer to ask for a particular product. Much nonsense has been written to justify advertising along the following lines: it is a patron of the arts; advertising is a force in raising the standard of living; advertising is an educational force and it makes possible inexpensive magazines for the masses. The root of advertising success, present, past and future, lies in its use as a means of selling in the cheapest way.

Within the past few years several individuals, long connected with the mechanics of advertising policy, have questioned in the writer's presence, the power of advertising to cause the consumer to insist on a particular product. One man said that, due to the improvement of production methods, all products were tending to become of approximate quality. Since no product has an advantage, his argument continued, it is useless to attempt, by advertising persuasion, to obtain brand preference from the consumer.

This line of reasoning smacks of some of the talk of new eras, the necessity for a new approach, a burning of past bridges, etc. To the sober student of distribution, the question resolves itself: are people asking for particular brands to-day?

If they are not, it is essential that distribution plans be revised to consider the new conditions. At any rate, it is certainly necessary that individual advertising firms look fully into the present brand situation.

It has been the privilege of the writer to participate in a number of investigations regarding brand habits of consumers. Mr. Douglas Carney and Mr. A. R. Thomson, 1933 graduates in Business Administration at the University of Western Ontario, have made significant contributions to the knowledge of brand habits of consumers during the

depression. The writer will to refer frequently to information brought forward in their investigations during this paper.

One of the significant points regarding food purchasing habits is the tremendous preference of the consumer toward a particular brand. The consumers interviewed in the preparation of Mr. Carney's paper were divided according to income. It was found in many cases that individuals in the middle and lower income brackets were as anxious, and in the case of many products more anxious, to obtain particular brands as the high income groups. Some typical examples of brand preference by income groups are as follows:

PERCENTAGE PREFERRING A PARTICULAR BRAND

Product	High Income Group	Middle Income Group	Low Income Group
Packaged Cheese.....	88.9	98.3	93.3
Lard.....	66.7	88.3	91.1
Biscuits.....	66.7	76.7	80
Ham.....	51.1	61.7	73.3
Bacon.....	53.3	66.7	71.1

In many other products the difference between the groups was negligible. In the case of some of the luxury food products, such as ginger ale, the lower income groups had a lesser preference. This seems quite natural. To the uninitiated, the high preference of the low income group for brands is surprising. Even in these days of reduced budgets, consumers of this group are conscious of factors other than price.

The surprising lesser interest of the higher income groups must be accounted for. While little of a scientific nature has been done to answer this question, several answers suggest themselves. In an investigation of the writer's in the men's clothing industry a few years ago, some aspects of buying habits in this line were uncovered.

It is evident that the consumer, upon entering a higher-priced store, automatically expects good quality and a proper service guarantee. However, when purchasers enter a middle and lower-priced store they are on their guard. They are looking for all possible earmarks of quality. The less reliable the merchant, the more the purchaser will look to the manufacturer's brand name as a guarantee of good quality.

While no similar observation has been made in the food fields, it

seems logical that similar purchasing habits will hold in this field.

The figures quoted regarding brand preferences in the meat lines are interesting. Approximately half of the higher income consumer group has no preference for particular brands of meat products (hams, bacon and sausage). Seemingly many consumers are willing to trust their butcher for good value. It is a matter of common opinion that the average butcher is a better merchant than the average grocer. Therefore, the buyer depends on the middleman for his assurance of quality. One might suggest that, as the middleman becomes stronger and more reliable, the consumer will tend to rely upon him for quality—rather than a manufacturer's brand name.

Mr. Thomson's analysis of brand preference in drug products brought forth some interesting figures.

It was found that 75.2 per cent. of the women asked for a particular brand when buying a drug product. The remainder were quite open to suggestion from the clerk regarding the brand. Of the men investigated, 64.4 per cent. asked for a particular brand. This may be due to several reasons: much advertising matter is directed at the woman; the woman is the professional buyer or the woman is a more wary purchaser.

Some effort was made to ascertain the brand situation among farmers. Toward this end, observations in sales of stores catering to this class of trade were made. Sixty-one per cent. of the women asked for brands, while 60 per cent. of the men had favorite brands. Thus, the farmers have not quite so great an insistence for brands as have their urban brothers and sisters.

The salient point of the investigation is that about 70 per cent. of the observed people were asking for particular brands. It is, of course, quite possible that special advertised prices could have been the source of much of the demand for particular brands. Unfortunately, specially cut-priced articles were not segregated.

If there is anything significant in the discussion up to date, it seems that it is that consumer's buying habits are essentially the same as in the past.

In the mind of the writer, there are several reasons for the chaotic situation regarding what the manufacturer should or should not do to distribute his product successfully. There are too many marketing organizations trying to sell his particular service. It will be a great step forward when one organization can come in and take over the entire distribution job. This will be especially so in the case of the

small manufacturing company. The managers of such firms to-day are attempting to do too many unrelated functions. This, however, is getting beyond the point of this paper.

In the present situation, the sane conclusion seems to be that buyers are still buying favored brands. New era-ists should have the old principles of branding reviewed for them. Individuals will ask for particular brands when:

1. The product has an outstanding point.
2. When the buyer is interested in uniformity of quality.
3. When the main qualities are not to be observed at the time of purchase.
4. When repeat purchase is frequent. This point, however, is not necessary when the purchase is a major one.

So long as advertising is an instrument in the sale of products falling into the above classifications, it has a chance to continue as a unit in the present scheme of getting goods from the manufacturer to the consumer economically.

CURRENT EVENTS

ARTHUR G. DORLAND, PH. D.

The Break Down of the London Economic Conference

THIS past summer has been hard on our crops and our idealism. The drought which afflicted most parts of this continent was a disaster, but nothing compared with the break down of the London Economic Conference of which so much was expected, but which is now regarded by many as simply another wreck along the impassible road of world co-operation. This is too pessimistic a view. But in the reaction of disappointment many have lost their small remnant of faith in the possibility of progress in this direction, and are saying that agreement by conference is impracticable and to despair of international co-operation altogether.

Of course most people expected far too much of the Economic Conference. The Press was in part responsible for the extravagant expectations of what the Conference might accomplish, by the 'advance publicity' employed and sensational claims for its success. Consequently expectations having been raised to the highest point, the let-down was all the more severe when the results appeared so negligible.

However, the prevalent belief that the Economic Conference achieved absolutely nothing is not warranted. It can be pointed out for example that the Conference has not been definitely abandoned as hopeless, but simply adjourned for a few months until world conditions generally, and more especially in the United States, are more propitious for the continuance of its sessions. Also the sterling *bloc* has been strengthened by the support which Great Britain has derived from the United States, as against the gold *bloc* represented by France and those countries of similar economic and monetary interests. The alignment of British and American interests supported by the Empire countries has served to create confidence in Canada, and from our point of view is highly satisfactory.

Admittedly these results are very meagre in view of the desperate need of far reaching agreements in respect of tariffs and international debts; but it is now evident that the holding of the Conference at all

was somewhat premature. This was well understood within a limited circle of the best informed opinion in Great Britain, when before the Conference even began the United States abandoned the gold standard as a part of President Roosevelt's policy of 'controlled inflation'. However, political reasons combined with the world situation generally made postponement of the Conference impracticable, and so it was allowed to proceed to its inevitable break down.

The principal reason for the break down of the London Conference was the refusal of Mr. Roosevelt to enter into any agreement for the temporary control of exchange fluctuations until there should be opportunity of seeing what effect his new policy would have upon price levels in his own country. This was apparently a contingency that he had not foreseen. While, therefore, Mr. Roosevelt may be charged with inconsistency for his sudden abandonment of the Conference, his action was really dictated by the unforeseen results of his programme of national recovery which he could hardly abandon at the very moment when such great expectations had been aroused in the hearts of his countrymen of improving their desperate condition by their own united efforts and without recourse to any outside help. In other words it was felt by the Roosevelt administration that the stabilization of the American dollar in accordance with the suggested programme of the Economic Conference *before* prices had been restored to the desired level by their 'new deal', would be fatal to its success. Moreover, the enthusiastic response of the American people to the vigorous and far-reaching measures applied has aroused hope of improving their condition by national action instead of by international action as they had momentarily been led to believe. After all this was a very natural reaction, because new and revolutionary in many respects as the Roosevelt policies are, they are less feared by the American people than the uncharted waters of international action concerning which they have none too pleasant memories.

Possible Effects of the Roosevelt Programme

The effect of the Roosevelt programme upon the future domestic and foreign policy of the United States no one can at present predict with any confidence. Some see in his programme a movement toward a form of American fascism. In fact the tremendous concentration of power in the hands of the President, the new codes under the National Industrial Recovery Act regulating competition, the fixing of minimum wage rates, of maximum working hours in industry, and the general

policy of economic planning and co-ordination of production, all strongly suggest essential features of the Italian fascist programme. Another important characteristic of fascism in the American experiment is that thus far its economic programme has been principally directed to the rehabilitation of the middle classes. Unquestionably organized labour in the United States will be profoundly affected. There have been recent indications of wide spread uneasiness in labour circles; while Mr. Hugh S. Johnson, Recovery Administrator, on October 10th issued a warning to labour in no uncertain terms that 'strikes were unnecessary' under the Roosevelt plan, and that no opposition of any kind would be tolerated. However, so long as there seems to be the chance of success, Mr. Roosevelt will be allowed to go on with his experiment; while those who might otherwise entertain certain qualms at his virtual dictatorship, believe that 'he will never be a Mussolini so long as he must periodically permit the country to vote for or against his continuance in office, and so long as he asks a popularly elected legislature for his grants of power'.

Perhaps the most disquieting feature of the American experiment is its possible harmful effect on international relations generally by a return to what for the moment appears to be an out and out policy of economic and national isolation. Many influential voices have been raised in support of economic nationalism as the only way that offers any hope of immediate help. Their argument is briefly that economic order like charity begins at home; and that a nation must first set its own house in order to ensure economic stability at home before it can safely venture into the unknown and uncontrollable fields of international co-operation. While there is much truth in this contention, it is only partly true because it is too often based on the assumption that the only controllable economic unit is a national unit, and hence that international co-operation or control is quite impossible of attainment. An American system of economic nationalism for example is quite frankly advocated as the only way out by Wallace B. Donham, Dean of the Graduate School of Business Administration of Harvard. In a recent article he claims that the United States can meet its problem only within controllable national areas, and goes on to say: "There is nothing in human history that indicates that control can be exercised beyond our national borders except by going to war. No ray of hope is held out by the history of international negotiations since the World War to indicate that any effective control is possible through international

agreement. A super-state with its terrific complexities would require master minds beyond the scope of human ability and could be maintained only by force."

The above point of view does not suggest anything new or encouraging in this Year of Grace 1933, since it is simply a return to a policy of economic selfishness and isolation backed by force, to take what it requires and to do what it likes regardless of the rest of the world. Must we then accept Hegel's bitter aphorism: 'That the lesson of history is that men learn nothing from history'? But surely the lesson learned long ago of the evils of uncontrolled individualism within the state, must be learned by states in their international relations. The crude and barbarous ethic which was banished from individual morality—that one must live only to oneself—must with equal insistence be banished from the state ethic. 'For national selfishness is the broad and open way to universal destruction'. Economic nationalism would appear to be a closed road, rather than the way out.

The Roosevelt Programme not Necessarily Harmful to International Co-operation

By way of concluding this survey, it might be pointed out that the general trend of events indicated above is rather more encouraging than some of these factors would at first suggest. The present American experiment has tremendous possibilities for good as well as for evil, and cannot but have far reaching results on our own Canadian development. For if—as it appears—American policy is moving quite definitely away from the traditional 'rugged individualism' and *laissez-faire* capitalism towards a new system of economic planning and supervision, it may eventually open the door for a projection of this more co-operative view into future American foreign policy. This has been indicated by Mr. Cordell Hull—leader of the American delegation at the Economic Conference—who maintained throughout that world planning is supplementary to national planning and not inconsistent with it.

In short if the same policy of co-operative planning and supervision which was referred to in Great Britain as the 'rationalization of industry' were applied to the larger field of international economic affairs there might be created certain manageable administrative, economic units as possible *nuclei* of larger world co-operation. At present the danger is that these larger economic units might become simply national economic units, such as the British Empire *versus* the World, or the United States or South America *versus* some other group. This is neither

desirable nor necessary. For agreements could be made between nations in the interest of closer economic co-operation with respect to monetary arrangements and the lowering of tariffs, or any such matters which would arise from a common economic need, rather than from any purely nationalistic or political conception. That is to say the present sterling *bloc* is safer than an Empire *bloc* pure and simple, or the present gold *bloc* than a purely French *bloc*. Common economic needs and interests hold less danger of closing the way to larger international agreements in the future, provide that the co-operative idea rather than a narrow nationalistic economy is the motivating ideal.

A New Canadian Socialist Party

The other important incident of the past Summer from the point of view of Canadian internal affairs was the convention at Regina of the new Canadian Socialist party—the Co-operative Commonwealth Federation. The new party manifesto is still rather nebulous and reflects much of the prevalent discontent and uncertainty of the times. But both old line parties have been compelled to meet its challenge, and Mr. King first and then Mr. Bennett found it advisable to go West on speaking tours to retrench their respective party positions. Mr. Bennett especially has been addressing groups of young people, as they are evidently most susceptible to the idealism of the new movement. An active Socialist party in Canada is long overdue, and will provide a much needed forum for the public discussion of more advanced social ideas than heretofore have been current in our political thinking and national policy.

LEGAL COMMENT

Cheques: "N.S.F." and "No Account"

A LONG enduring depression such as that from which we are slowly emerging, naturally and inevitably raises many problems for the industrialist, and the business man. One of these which has arisen to harass the cashier's department of many businesses both large and small has been the bad cheque. It is by no means a new problem, but one which during times of financial stringency becomes increasingly widespread and serious.

Prior to 1932 the only protection against the issuer of bad cheques (i.e. cheques on banks in which the maker had no account or not sufficient funds) was a section of the Criminal Code of Canada known as the "False Pretence" section, 405.

By Section 404 a false pretence is defined as "a representation, either by words or otherwise, of a matter of fact either past or present, which representation is known by the person making it to be false, and which is made with a fraudulent intent to induce the person to whom it is made to act upon such representation."

Section 405 reads, "Everyone is guilty of an indictable offence and liable to three years imprisonment, who, with intent to defraud, by any false pretence . . . obtains anything capable of being stolen"

Because of the clause "Either by words or otherwise" the pretence might be by conduct of the party. As a result it was held many years ago that the giving in payment, for goods obtained, a cheque upon a banker with whom the defendant had no account, was within the section. This principle established, it very quickly lost much of its potency by exceptions to the rule.

The first case of interest is that of Mr. Walne. He bought a mare on Thursday and giving the vendor a cheque for it requested that it be cashed on Saturday, to which he said the vendor agreed. He had no account at the bank. The cheque was presented Thursday. Walne also stated he expected money by Saturday. (It didn't arrive!). No conviction.

The court, however, made it a bit more difficult for the defrauder in a case against one Hazelton. This gentleman had an account but with a nominal balance only when the cheque was presented. He was able to show that when he made the cheque he had a balance sufficient to cover. Unfortunately for the creditor other cheques were cashed first. It was held if it were proven that he had issued the cheques knowing the account would be overdrawn, without funds to bolster his account and without an overdraft arrangement, he would be guilty.

In a more recent case one Israelawitz, after closing out his bank account obtained securities with a cheque. When the State of New York, the complainant in our court, proved Mr. Israelawitz had closed his account and had no reasonable hope of having the money to meet the cheque, he was convicted.

These cases are mentioned to illustrate the difficulty of procuring convictions. The complainant had the onus on him to prove the defrauder intended to defraud and had no means of meeting his obligations. The result was that prosecutions were few and successful ones fewer. Possibly the climax was reached when an ingenious fellow named Sector, having his car held by a garage for a repair bill, sent his employee down to the garage with a cheque dated exactly 10 years ahead. The garage owner, not noticing the date, delivered the car. Fortunately he was able to prove a statement by Sector that he would send a cheque for payment immediately and further prove that he would not have delivered the car if he had known the cheque was post-dated 10 years. Sector was convicted.

As a result of the difficulty in proving fraudulent intent in these cases Parliament in 1932 amended Section 405 by adding the following:

Section 405, Subsection 3, "In any prosecution under this section, if it be shewn that any thing capable of being stolen was obtained by the accused by means of a cheque which, when presented for payment within a reasonable time, was dishonoured on the ground that there were no funds or not sufficient funds on deposit in the bank to the credit of the accused, it shall be presumed that such thing was obtained with fraudulent intent by a false pretence, unless it be established to the satisfaction of the Court that when the accused issued such cheque he had reasonable grounds for believing that it would be honoured if presented for payment within a reasonable time after it was issued."

The result of this has been felt immediately. Convictions have been more frequent, but more important, the number of bad cheques

has decreased enormously, and this despite conditions which are favourable to this type of fraud.

One word concerning post-dated cheques. One Parker issued a post-dated cheque for 25 pounds to a jeweller for a watch and chain. On handing the cheque over to the salesman he made statements concerning the value of the cheque, his own worth, his right to draw the cheque, his credit and finally the certainty of it being paid. He was convicted. This case must be distinguished from the ordinary one where a post-dated cheque is handed over without Mr. Parker's veracity. Many years ago it was held that where a Mr. Richards gave a post-dated cheque which was never paid, he did not come within the Section. A reading of Section 404 above will confirm that. More recently, in dealing with a case of post-dated cheques, the maker being confronted with sub-section 3 above, the court upheld the accused in his contention that a post-dated cheque is not a cheque in law at all, but a promissory note payable on demand after date.

A Word About Receipts

Probably no class of commercial paper is so little understood as the common receipt. And when an attempt is made to combine it with a negotiable instrument used as payment it would appear to be still more of a mystery.

In the final analysis a receipt is neither more nor less than an admission in writing. It has been defined by our courts in various terms, the most common being that it is a formal paper, signed by one party, delivered to another and acknowledging that money or some other valuable commodity has been received. It may consist of a separate writing, it may be an admission in or endorsement on a document dealing with other matters, or another instrument may, because of its nature, be treated as a receipt. A very common example of the latter type is a cashed, endorsed cheque, or a note in the hands of the maker.

The essential element of a receipt is, of course, common knowledge. A complete receipt should show that a payment has been received; the date of the payment; the amount or article received; from whom received; on whose behalf payment is made; to what purpose it is to be applied; by whom received, and if for another, on whose behalf it was received. It will be either "in full," "on account" or to apply on a particular account.

The receipt in law is no more than evidence of payment. It is not in any sense conclusive, and may be rebutted. The evidence in rebuttal must, of course, be stronger than that furnished by the receipt itself. Or in other words, where the weight of evidence is equal as between a receipt and the evidence attacking it, the receipt will be upheld. Not infrequently receipts dealing with rent payments are incorrect and upon such being proven they cease to have any effect.

It is a recognized practice of some business houses to give receipts for payments received in the form of cheques, notes or drafts. The taking of negotiable paper has resulted in some interesting case law. It is a settled matter at least that during the term of the instrument no steps can be taken to recover the debt. And it is now further settled that in the absence of any agreement if A pays a debt owing to B by handing over a negotiable instrument which is dishonoured at maturity the debt revives, it being held that B received the paper as a conditional payment only. And this is true regardless of the fact that B may have given A a receipt "in full of account." In a well known case A received an instrument and gave a receipt "for and on account of and in payment and discharge of" the debt. When the instrument was dishonoured, A brought action and was met with the receipt. The Court held it was a receipt obviously conditional on the paper being paid. Here again, however, evidence may be given to show that B actually took the paper intending to release A from any further liability and it has been held in our courts that where the negotiable paper is that of a third party, the presumption is more strongly in favour of A's contention. And where A pays by giving a cheque to B who has it "marked" or "Certified" by the bank the payment is absolute and a receipt given is conclusive. If for any reason (such as the failure of the bank) the cheque is not honoured by payment the loss must fall on B.

The payment by cheque marked "in full" or with some similar notation is familiar to everyone and is one of the most troublesome types of receipt. Where the amount of the cheque corresponds with that of the account the difficulty doesn't, of course, arise. Where, however, A believing he owes B fifty dollars instead of the sixty claimed by B in the invoice he rendered, sends a cheque for fifty marking his cheque "in full of account," B has a problem on his hands. Should he return the cheque or keep it? If Mr. B is wise he will cash the cheque and notify A at once that he is accepting the money on account. For

there is no rule regarding this situation and the intention of the parties to the transaction governs the matter. Whether a cheque is accepted in full of a larger amount is a question of evidence.

It has been held by our courts at various times that a cheque marked "balance of account," or "in full of all demands" but for a smaller amount than the account is payment in full only if so accepted. As indicated, the proper action is to cash the cheque and immediately protest the amount. However, it is possible to so word such a clause that the payee on cashing agrees to accept the cheque in full. The wording should be such that the cashing is the acceptance of an offer of the smaller sum for the larger. The simplest type is "if cashed to be deemed payment in full of . . . etc." A more elaborate form occasionally used by business houses is endorsed on the back of the cheque and reads "The payee on payment hereof acknowledges payment in full of . . . etc."

It is essential that, where payment is not made such a condition, and the payee cashes the cheque he should make his position clear to the debtor, and his position should be unequivocal. A sent B a cheque for a smaller amount marked as payment in full and B wrote threatening to return the cheque if the balance was not paid forthwith. The balance wasn't paid and B finally cashed the cheque and sued for the balance. The court, commenting that men must be known not by their words but by their actions, held that by cashing the cheque B must be presumed to have decided to accept the smaller amount in full.

A payment of a smaller amount in full of a larger account, made by a third person's cheque, must either be accepted in full or returned. In such a case the creditor has no right to accept the smaller amount and claim the balance. So where a father sent a cheque for one thousand dollars for the twelve hundred dollar debt of his son and marked the cheque in full, and the creditor cashed the cheque he was held by the Court to have accepted the amount as payment in full.

It would appear to be good law that a receipt given under seal is, in the absence of fraud, conclusive against the party signing. But this is subject to an exception where the receipt is in the body of or endorsed on a deed or mortgage. In such a case as between the immediate parties to the transaction evidence may be given to show that no money was in fact paid for the document. But such a receipt is by statute absolutely conclusive against the party signing when an innocent third party has been misled by it. In other words, having acknowledged in

a deed or mortgage the receipt of the consideration, as against a subsequent purchaser the grantor or mortgagor cannot be heard to say he has not received the monies as alleged in the document.

No consideration of our topic would be complete without a reference to those documents which combine a receipt with some form of contract. The best known of these are warehouse receipts, bills of lading and freight bills. Here we have a receipt for goods coupled with a contract to store, or to transport. As in most cases, as between the parties to the contract the receipt is not conclusive, and the warehouse man, or the carrier, may show errors in the receipt. However, again, where third parties have accepted such a receipt as correct and have given value for a transfer of it, the receipt is presumed correct and conclusive against the signer. So when goods are shipped and a bill of lading received, and subsequently transferred to a purchaser for value the carrier is liable for the goods as set forth in it.

SOME ADVERTISING BONERS *

GEORGE R. MUNRO, M. A.

TO resort to the vernacular . . . so to speak, the writer chose "Boners" as being the word that most aptly described the situation. Paradoxically, this thesis goes on to remonstrate with the American copywriter on his choice of language for Canadian advertising. And yet the word "boner" is pure and simple, a slang expression—borrowed no doubt from Baseball.

Two advertising executives passing professional judgment on the writer's outline, voiced the opinion that "the opportunity missed" would supplement the heading. Copy errors, they maintained, must not be confused with "boners," these errors occur sometimes where identical copy is run at widely separated points in Canada. For example, an error might occur where certain seasonal articles are being featured. Fur coats for 20 below zero weather are decidedly out of place in Vancouver, where they have only two seasons, wet and dry, but are perfectly in order for Montreal, Ottawa or Winnipeg. This copy might quite easily be placed in a national magazine, and be incongruous to local situations.

Ridiculous "boners" are most frequent when copy intended for Canada is left in its original state as prepared in the United States for American consumption.

"Fundamentally the same appeals are used regardless of national barriers", stated one Canadian agency executive. * The "boner" results when no attempt is made to make the appeal specific to the particular market. For example, certain intimate hygienic products are frankly discussed in American advertisements and apparently are meeting with success, because of their continued display. In Canada, a similar campaign met with only lukewarm response and a competitive product more discreetly advertised is proving itself more popular. This may be accounted for to some extent by the different attitude assumed toward the discussion of such subjects by the Anglo-Saxons, who predominate in Canada, in contrast to the frankness of the Central

* This article was taken from Mr. Munro's thesis "The Advertising Problem of the American Manufacturer Marketing his Product in Canada."

Europeans, who are represented in large numbers in the United States.

The American copy hasn't that "imported" flavour to it, so that the Canadian reader views it with a touch of disdain. It is readily understandable, but it is not acceptable and rather than building up a receptive attitude, it encourages an extra barrier of resistance.

Some few years ago the Reo Motor Car Company, in introducing its Flying Cloud model, built the main theme of the advertisements around the American clipper ship that "ruled the Seven Seas." No doubt, the statements were perfectly legitimate, but the fact remained that in Canada, Great Britain has always been considered the "Mistress of the Seas." The strength of the copy in the United States was lost in Canada to some extent by the indignation aroused by the claim of the Clipper Ship.

One may wonder whether the United States flavour to the names of the following motor cars have any great negative affect in the customer's mind e.g., Reo, Studebaker's President and Rockne, Roosevelt, etc. The names of course lack the sentimental power which favoured them in the United States. Possibly with daily usage their real derivation is forgotten, and they become merely names.

The Atwater-Kent program, a few years ago, stood for the finest in radio entertainment. The world's greatest musical artists were heard. One night one who is particularly dear to Canadians, Edward Johnson, of Guelph, Ontario, was to be featured. A story is told of an eager audience grouped around the radio waiting patiently for the voice of their fellow townsman. But imagine their feelings when Edward Johnson, Canadian, was introduced as, "America's Greatest Tenor." That program would probably be heard by thousands of Canadians and one might well imagine the chorus of derision at that "boner".

The radio brings many examples of bad psychology, due to its indifference to international boundaries. When the announcer says, "... this offer is limited to the United States" and the product has a large market in Canada, the listener feels as though he is being discriminated against.

The Shaeffer Pen Company sponsored a series of broadcasts featuring American university and college songs. To capitalize on the fact that a large number of Canadians were listening in, they hit upon a brilliant plan of featuring the leading Canadian university songs. This clipping from Marketing will give the details:

"Received a rude shock Sunday evening October 9th, and

it came right out of my radio. The Singing Shaeffer Penman suddenly got my attention as I turned the dial, because their announcer was just saying that for their college number that night they would journey to Canada, to the University of Toronto! Naturally, anything so near home was interesting, but imagine my surprise when the songsters led off with two Queen's songs. In both of them the actual word Queen's was used too, and plenty of the old Gaelic from the Queen's yell. Somebody thinks Canada has only one City and one University, or else Queen's needs a lot more publicity. I wonder if any other Queen's men had the same surprise that I did."¹

Capitalizing on historical personages, or national heroes, by naming products after them is sometimes dangerous in the foreign market. An exception to this perhaps was a popular style in Community Silver a few years ago called the "Paul Revere" pattern. It was a colonial design and so the name was appropriate. The silverware sold very well in Canada under this name. Considering an advertising program build around this theme, suggests a wealth of romance and colour. In the United States the atmosphere would create a very pleasing attitude toward the pattern; in Canada it would merely amount to a name for identification. Jewellers in London state that the pattern name means very little in the purchase of silver, rather the maker is the strongest factor. This might account for the reception of the "Paul Revere" pattern. Possibly another exception may be illustrated in the case of Bulova watches. One style was called the "Lone Eagle," after the famous Colonel, and the most recent, the "Miss Liberty". Once again the jewellers say that style names mean very little in the purchase of a watch, but the name of the maker is very important. For example, the most popular watches to-day are those that are well advertised over the radio and in magazines. Other watches with similar Swiss movements and rated just as good by the watchmakers, are considered secondary by the purchaser.²

The two examples cited above, featuring American national heroes, have been very successful in Canada despite the fact that they carry United States names. In each case it is pointed out that the name

¹ Marketing, October 22, 1932, "Hoist the Sales," p. 164.

² The writer visited the leading jewelry stores in London to investigate these products with regard to their names. The results of this study are set down in the above paragraphs.

means relatively nothing in the purchase. These names do not need to be featured in the advertising in Canada. If the product was such that the identification was necessary, the American theme would dominate the advertisement. In this case the distributor would be advised to choose a name less American in flavour for the best reception in the Canadian market.

Speaking of historical personages, the "Old Virginia" pipe tobacco company, in a recent advertisement, feature the "Old Bruton Parish Church, of Williamsburg, Virginia, where George Washington worshipped in 1781" (four years after the Revolution, by the way). This might be termed a psychological error on the part of this company. Certainly the atmosphere created will mean much less to the Canadian, than if it were presented to the American market.

The mistakes pointed out do not necessarily condemn the advertisements as ineffectual, nor are they representative of "bonehead" judgment on the part of the advertising executives. The point in question is, however effective the advertisement is in its present form and make-up, it would have been made much more interesting and arresting to the readers, had the detail illustrated been "Canadianized."

Percy G. Cherry*, Toronto advertising executive, had spoken to American advertising groups on the subject of "boners". The following is an excerpt taken from a reprint of his address to a New York group:

"For example: Waterman's fountain pens did not gain prestige when they displayed posters at the close of the war illustrating Uncle Sam as the central figure of the Allies and flung across our country the words that "Uncle Sam Signs the Peace Treaty with a Waterman Fountain Pen." Coca Cola doesn't gain anything by showing in Canada the poster illustrating an American "cop". The United Hotels slap the faces of Canadians who register when they are asked to fill out registration cards showing address and "state", without "province" (we have no states here) with the card bearing the imprint "Printed in U. S. A." This happened to me last year when I registered at the Mount Royal Hotel in Montreal. The railway that two or three years ago published an ad. in one of the Winnipeg papers stating that when you patronize this transportation

*Secretary and assistant of Might Directories Limited, Toronto.

system you help to employ men in the local shops, slipped a cog. This railway had no local shops and no lines in Canada. Apparently it had space to its credit in the paper and to use it sent along any old copy.*

Another interesting "boner" occurred in a Royal Bank ad. with the main theme centred about the idea of "Team Work". Three rugby players are shown in action, one is evidently catching a forward pass, his team-mate is effectively blocking an opponent out of the play. "Team Work for Success" is the heading. A moral is drawn indicating the value of co-operation with the bank, leading to financial happiness while at school. The ad. appeared on the sport page of the McGill Daily newspaper.

The writer showed the illustration to a Varsity end who immediately labelled it "American"—interference is not allowed on such a play in the Canadian game. Two other persons, not football men, commented on its American appearance; one thought it might be the work of a dumb artist.

At any rate the point is sufficiently clear that the bank "pulled a boner" in using an American illustration in a Canadian ad. especially placing it on the sport page where those well versed in the technique of this sport would be sure to notice it. The incongruity would be pointed out and the whole idea of the advertisement would be pushed into the background. This shows, moreover, the dangers of trying to write special copy for particular groups. In summary then, one might say: "Boners" are due to several things.

- a. Faulty checking on the part of agency executives.
- b. Laziness. Otherwise a thorough examination of the copy and its intended use would have exhibited its weakness.
- c. Misunderstandings of the Canadian point of view.
- d. Ridiculous errors due to ignorance, or the use of the same copy written for the American market in Canada.

The first two factors mentioned may be eliminated by more efficient supervision of the organization. The last two factors are more pardonable, and necessarily need some explanation in order to acquaint the American distributor of the Canadian situation.

*Cherry, P. G. From an address given before the Advertising Club, New York.

